

B8595E

3.E25

1986/87

Copy 1

Economic Review Outlook Fiscal Year
1986/87

B8595E
-3.E25
1986/87
COPY 1



STATE OF SOUTH CAROLINA
BOARD OF ECONOMIC ADVISORS

James A. Morris, Ph.D., Chairman
Barbara A. Feinn, Ph.D.
John T. Weeks
Bobby M. Bowers

Rembert C. Dennis Building
Suite 345
1000 Assembly Street
Columbia, S. C. 29201
803/758-8663

Economic and Revenue Outlook for Fiscal Year 1986-87

There is considerable uncertainty regarding the direction of the economy in Fiscal Year 1986-87 because so much depends on what action will be taken by the Congress and the Administration to reduce the budget deficit and existing foreign trade imbalances, and on whether the Federal Reserve will continue its modestly stimulative monetary policies. The Gramm-Rudman-Hollings amendment, which would require reductions in the deficit, is currently stalemated in the Congress, indicating the difficulty the Congress has in addressing the deficit problem. The textile trade Bill is also encountering strong opposition.

It is assumed that some progress will be made prior to next fiscal year on both the budget deficit and the trade problem, even if legislation currently before the Congress does not pass. The five-country agreement last month to bring down the value of the dollar appears to have had some effect already, although it is too early to assess the true impact of the program. The Federal Reserve appears to be accommodating the agreement, which could help relieve pressures on interest rates that may occur from a falling dollar. How far the Fed will go still remains to be seen. Indeed, it will take time before the benefits of any corrections are felt in South Carolina, but it is reasonable to expect results by next fiscal year. The outlook is for the national and State economies to grow at moderate but erratic rates, with inflation of 3 - 4 percent through this fiscal year.

S.C. STATE LIBRARY

DEC 31 1986

STATE DOCUMENTS

The economic outlook for Fiscal Year 1986-87 is a bit more favorable than this year with a probability of real growth at rates of about 3 percent, with inflation in the 4 - 5 percent range. A lower value of the dollar will, hopefully, relieve some of the extreme adversity that the manufacturing sector of the State has been experiencing and should help our export position. A lower federal budget deficit should help to bring interest rates down somewhat, which will help the construction and capital goods markets. We should be able to count on continued growth in the trade, service, and tourism sectors in the State. Although it is still uncertain what impact interstate banking will have for South Carolina, it is anticipated that the financial industry should also grow in the State. Given this outlook, it is projected that personal income will rise by 7 - 8 percent in nominal dollars.

Although the historical relationship between taxes and income growth has been affected by the adoption of the federal income tax code and by South Carolina tax changes, General Fund Revenues can be expected to grow at approximately the same pace as personal income. The projected growth rate for Fiscal Year 1986-87 over revenues expected in Fiscal Year 1985-86 is 7.7 percent. The enclosed tables provide details of the forecast for Fiscal Year 1986-87.

Board of Economic Advisors
J.A.M.
November 1, 1985

TABLE 1

**GENERAL FUND REVENUE FORECAST FOR FISCAL YEAR 1986-87
(IN MILLIONS OF DOLLARS)**

REVENUE CATEGORY	PART 1, SECTION 128 OF ACT 201 OF 1985 (THE APPROPRIATION ACT)			BEA WORKING ESTIMATE FY 1985-86 AS OF 11/1/85	BEA FORECAST FY 1986-87
	BEA FORECAST 5/8/85 FY 1985-86	JUNE 14, 1985 FY 1985-86			
SALES*	902.2	906.0		894.0	962.0
INDIVIDUAL	957.4	1003.2**		952.4	1056.0
CORPORATION	182.0	193.3		208.2	215.0
ALL OTHER	451.0	454.1		467.0	486.0
REGULAR SOURCES	2492.6	2556.6**		2521.6	2719.0
MISCELLANEOUS	38.7	40.6		41.4	42.0
TOTAL GENERAL FUND REVENUE	2531.3	2597.2**		2563.0	2761.0
EDUCATION IMPROVEMENT FUND				223.5	240.5
INTEREST ON EDUCATION IMPROVEMENT FUND				1.8	1.8
TOTAL				225.3	242.3

*: NET OF EDUCATION IMPROVEMENTS ACT FUNDS.

**: ADJUSTMENTS MADE BY BUDGET AND CONTROL BOARD ACTION ON AUGUST 8, 1985.

BOARD OF ECONOMIC ADVISORS
NOVEMBER 1, 1985

TABLE 2

GENERAL FUND REVENUE FOR FISCAL YEAR 1986-87
(IN MILLIONS OF DOLLARS)

REVENUE CATEGORY	GENERAL APPROPRIATION ACT* FY 1985-86	BEA FORECAST FY 1986-87	DOLLAR CHANGE
SALES TAX **	906.0	962.0	56.0
INDIVIDUAL INCOME	1003.2***	1056.0	52.8
CORPORATION INCOME	193.3	215.0	21.7
ALL OTHER REVENUE	454.1	486.0	31.9
REGULAR SOURCES	2556.6***	2719.0	162.4
MISCELLANEOUS	40.6	42.0	1.4
TOTAL GENERAL FUND REVENUE	2597.2***	2761.0	163.8

*: PART 1, SECTION 128 OF ACT 201 OF 1985.

**: NET OF EDUCATION IMPROVEMENT ACT FUNDS.

***: ADJUSTMENT MADE BY BUDGET AND CONTROL BOARD ACTION ON AUGUST 8, 1985.

BOARD OF ECONOMIC ADVISORS
NOVEMBER 1, 1985

TABLE 3

TOTAL GENERAL FUND REVENUES
 QUARTERLY ESTIMATES
 FISCAL YEARS 1985-86 AND 1986-87
 (IN MILLIONS OF DOLLARS)

	FY 1985-86 -----	FY 1986-87 -----
FIRST QUARTER	636.0	701.0
SECOND QUARTER	1,256.0	1,372.0
THIRD QUARTER	1,889.0	2,032.0
FOURTH QUARTER	2,563.0	2,761.0

PERCENT OF TOTAL REVENUES
 COLLECTION BY QUARTER

	FY 1985-86 -----	FY 1986-87 -----
FIRST QUARTER	24.8	25.4
SECOND QUARTER	24.2	24.3
THIRD QUARTER	24.7	23.9
FOURTH QUARTER	26.3	26.4

Board of Economic Advisors
 11/1/85

**REVENUE FORECASTING PROCEDURES
BOARD OF ECONOMIC ADVISORS
FISCAL YEAR 1987**

The procedures and methodology of the Board of Economic Advisors in the preparation of the revenue forecast for Fiscal Year 1986-87 and the working estimate as of 11/1/85 for Fiscal Year 1985-86 involved five major stages: 1) providing the economic background and setting at the national and State levels for the revenue forecasts; 2) reconciling the May 8, 1985 Board of Economic Advisors Estimate for Fiscal Year 1985-86 with Legislative adjustments in Part 1, Section 128 of Act 201 of the 1985 Appropriation Act; 3) interpreting recent and historical elasticities; 4) analyzing the outputs of the SCOPE model under alternative scenarios, and 5) interacting with officials of other states with responsibility for revenue forecasting.

The Board members individually and collectively had meetings as in the past with experts and professional economists for economic intelligence gathering. These included among others a three and a half hour Board of Economic Advisors meeting on August 26, 1985 with J. Alfred Broadus, Jr., Ph.D., Senior Vice President, Federal Reserve Bank of Richmond; Ryan C. Amacher, Ph.D., Dean of the College of Commerce and Industry, Clemson University; and Richard W. Ellison, Ph.D., Senior Research Economist and Associate Professor of Economics, University of South Carolina in which the outlook for the economy of the nation, South Carolina, and the textile and other significant industries in the State was discussed. Meetings also included interaction between Board members and leading economists. The resources of the national forecasting groups by which the SCOPE model is driven, Data Resources, Inc. and Evans Economics, Inc., were available on-line as well as in hard-copy Reports weekly and monthly to Board members. Materials from a variety of sources--international, national and state publications--were also made available to Board members. Additionally, Board members and staff participated with key officials of other states at the 40th National Association of Tax Administrators Meeting on State Revenue Estimating in Baltimore, Maryland on October 20-23, 1985.

The preparation of the economic forecast involved many meetings between July 1 and November 1, 1985 with preliminary estimates, modifications and refinements of estimates.

Board of Economic Advisors
November 1, 1985

BRIEF OVERVIEW OF THE SCOPE MODEL

The SCOPE (South Carolina Operations Planning and Evaluation) Model was initiated in 1972 in the Office of Chief Economist (originally in the Governor's office and now in the Division of Research and Statistical Services). It was designed and operates as a policy and forecasting tool for top level executive, legislative and management decision making. SCOPE is an econometric model designed to reflect the South Carolina economy and to forecast the performance of major economic variables in the State, particularly tax revenues, employment and income. The model is based on a framework of economic activity in the State relative to national economic activity. Approximately 85 exogenous national variables are currently taken from two leading national forecasting services (Data Resources, Inc., and Evans Economics, Inc.).

The SCOPE core model consists of 63 equations, of which 55 are stochastic* and 8 are identities. SCOPE attempts to reflect the diversity of the South Carolina economy by including 20 industrial sectors of manufacturing and nonmanufacturing employment, and a series of equations for wages, personal income, unemployment, taxable sales and state tax revenue.

Durable Manufacturing Employment

The durable manufacturing employment block consists of 6 stochastic equations for the major industries in the State as reported by the South Carolina Employment Security Commission. The employment equations for each separate industry are expressed as a function of a national consumption expenditure index appropriate for that particular industry, a national industrial production index corresponding to that industry and the national level of employment in that industry. The durable employment forecasts include the following industries: Lumber and Products, Stone, Clay and Glass, Fabricated Metal Products, Electrical and Nonelectrical Machinery, and Other Durables which includes Furniture and Fixtures, Instruments and Related Products.

Nondurable Manufacturing Employment

The nondurable manufacturing employment block consists of 7 stochastic equations for the major nondurable industries in the State. Like the durable block, the employment equation for each industry is expressed as a function of a national consumption index appropriate for that particular industry, a national industrial production index for that particular industry and the

* Stochastic is defined as a type of modeling for time series analysis explaining future probability from historical experience.

national level of employment in that industry. Employment forecasts are available for each of the following nondurable industries: Food and Kindred Products, Textile Mill Products, Apparel, Paper, Printing and Publishing, Chemicals, and Other Nondurables, such as Rubber and Miscellaneous Plastics Products.

Nonmanufacturing Employment

The nonmanufacturing employment block is disaggregated into 7 stochastic equations: Construction, Transportation and Public Utilities, Services, Trade, Finance-Insurance-Real Estate, State and Local Government, and Federal Government. Employment growth in these industries is specified as functions of state population, national employment in these industries and national consumption indices.

Personal Income

The personal income block is composed of 2 stochastic equations, one equation for average hourly earnings and one equation for the unemployment rate, and 10 additional stochastic equations, one equation for each of the 10 major components of personal income as published by the Bureau of Economic Analysis, Department of Commerce. These equations are specified as functions of their respective national and State income and employment variables. In addition, equations are estimated for wage and salary disbursements for all major industries and are specified as functions of national wage trends and State employment levels.

Revenues

The revenue section of the model emphasizes 4 major stochastic Regular Revenue Sources equations: 1) South Carolina corporate income tax, 2) South Carolina individual income taxes, 3) South Carolina retail sales, and 4) all other taxes. These equations are individually specified as functions of aggregate employment and income with their respective coefficients and constants. In addition, there are 2 stochastic equations for taxable sales and refunds.

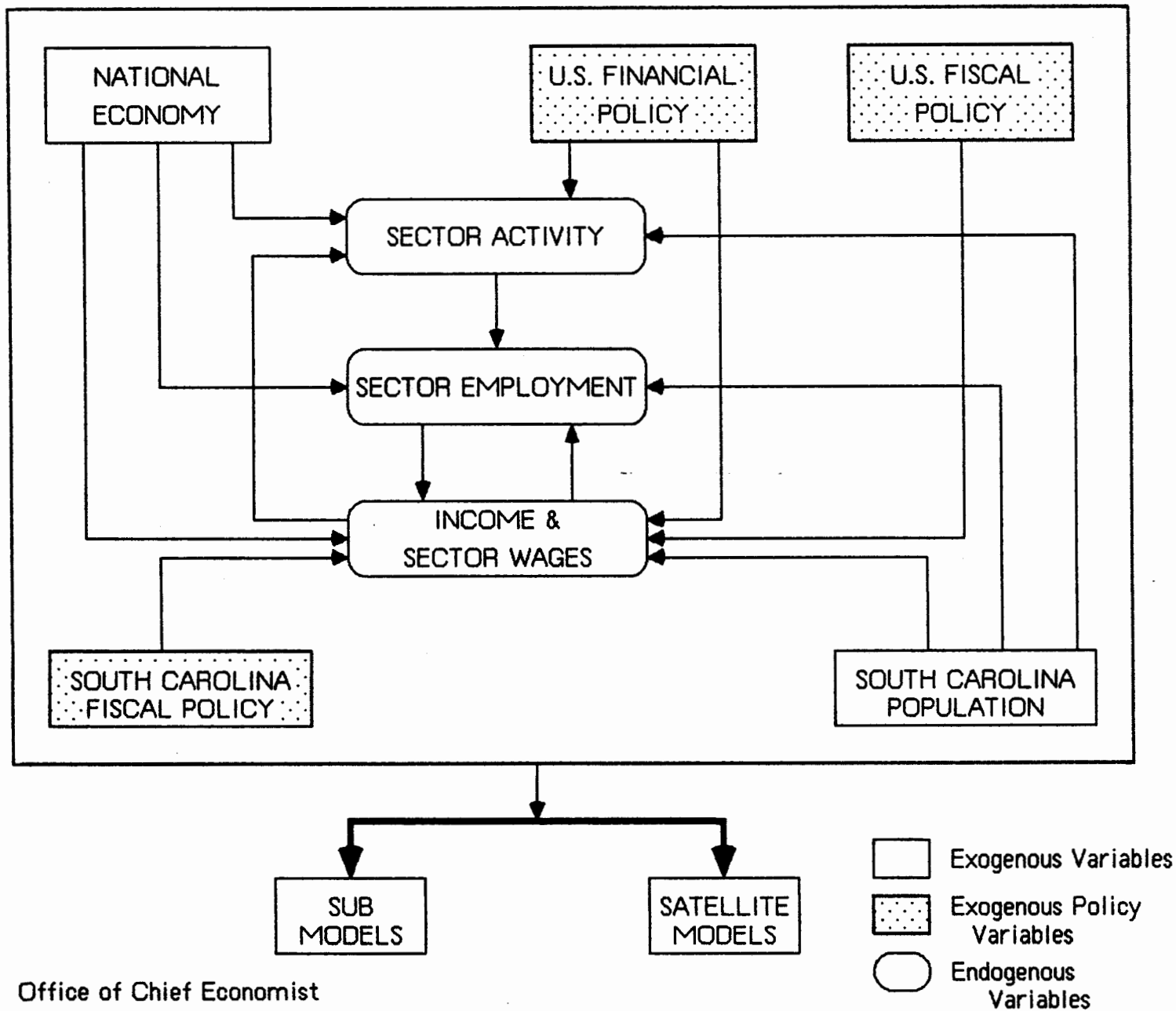
11/1/85

Office of Chief Economist

SCOPE MODEL

001 01 0025018 1

SOUTH CAROLINA OPERATIONS, PLANNING & EVALUATION MODEL



Office of Chief Economist
State of South Carolina
November 1, 1985